

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-07 ISO-00 FEA-01 AGRE-00 CEA-01

CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07 INT-05

L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05 CIEP-01 SS-15

STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02 OMB-01

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C O N F I D E N T I A L TOKYO 17545

E.O. 11652: GDS

TAGS: ETRD EEC JA

SUBJECT: U.S.-JAPAN CONSULTATIONS ON STEEL

REF: (A) TOKYO 15887 (B) TOKYO 15972 (C) BRUSSELS 11218

(D) TOKYO 17483

1. SUMMARY. THIS CABLE PROVIDES BACKGROUND FOR THE U.S.-JAPAN STEEL CONSULTATIONS SCHEDULED DECEMBER 6-7. AS STATED IN EARLIER REPORTS, MITI REPEATEDLY SPEAKS IN SUPPORT OF THE PRINCIPLE OF FREE TRADE AND CLAIMS TO LOOK UPON VOLUNTARY RESTRAINT PROGRAMS LIKE THAT IN EFFECT FOR STEEL EXPORTS TO EUROPE AS UNDESIRABLE BUT OCCASIONALLY NECESSARY. MITI EMPHATICALLY DENIES A ROLE OF LEADERSHIP IN SUCH RESTRAINT PROGRAMS AND APPARENTLY DOES NOT SUPPORT THE STEEL INDUSTRY'S WILLINGNESS TO EXTEND EXPORT RESTRAINTS TO THE U.S. ALTHOUGH THE BIG SIX PRODUCERS IN THE JAPANESE STEEL INDUSTRY ARE PREPARED TO CONTINUE THEIR RESTRAINT ON EXPORTS TO THE EC AND, IF NECESSARY, INCLUDE THE U.S. AS WELL, THEIR FEAR OF AN ANTI-TRUST REACTION IS SIMILAR TO MITI'S CONCERN OVER ANY MOVE THAT IMPLIES A "SECTORAL" APPROACH TO STEEL ISSUES. EXPORTS OF STEEL SHAPES BY SMALLER JAPANESE PRODUCERS  
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HAVE BEEN A MAJOR SOURCE OF RECENT FRICTION IN JAPAN-EC ECONOMIC RELATIONS AND, CONTRARY TO PRESS SPECULATION, MITI IS RELUCTANT TO INTERVENE THROUGH ADMINISTRATIVE GUIDANCE. HOWEVER, MITI AND INDUSTRY SPOKESMAN PROFESS TO BE LARGELY SATISFIED WITH RECENT

JAPAN-EC CONSULTATIONS--THERE SEEMS TO BE A FEELING THAT PROBLEMS IN STEEL EXPORTS TO THE EC CAN BE HANDLED THROUGH CONTINUED RESTRAINT BY THE JAPANESE INDUSTRY, AS WELL AS BY CHANGES IN THE EC MARKET. END SUMMARY.

2. JAPAN'S MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI) HAS REPEATEDLY CLAIMED TO SUPPORT THE PRINCIPLE OF FREE TRADE AND VIEWS VOLUNTARY RESTRAINT PROGRAMS (VRP) SUCH AS THE ONE FOR STEEL EXPORTS TO THE EC AS BEING REGRETTABLE, HOPEFULLY SHORT-RUN NECESSITIES. MITI VIGOROUSLY DENIES AN ACTIVE ROLE IN BRINGING ABOUT THE VRP TOWARD THE EC. ITS REPS WILL EVEN HEDGE AT USING WORDS LIKE "AGREEMENT" OR "ARRANGEMENT", FEARING THAT WE WILL INTERPRET THEM TO MEAN A SPECIFIC PLEDGE OR CONTRACT, RATHER THAN AN INFORMAL VERBAL UNDERSTANDING OF MARKETING INTENTIONS. OBVIOUSLY, MITI IS WELL INFORMED OF ALL DEALINGS BETWEEN JAPANESE AND EC STEEL REPRESENTATIVES, AND IT IS UNLIKELY THAT JAPAN'S STEEL INDUSTRY WOULD PURSUE STRATEGIES ABOUT WHICH MITI HAS GENUINE RESERVATIONS. STILL, MITI INSISTS THAT IT HAS ACTED ONLY IN ADVICE AND SUPPORT OF WHAT HAS BEEN A STEEL INDUSTRY-ENGINEERED VRP WITH THE EC.

3. AS REPORTED IN REFTEL B, MITI ACKNOWLEDGES THAT THE STEEL INDUSTRY HAS ALSO PLACED "VOLUNTARY LIMITS" ON ITS EXPORTS TO THE U.S., BUT REACTED STRONGLY TO AN ANNOUNCEMENT BY JAPAN IRON AND STEEL FEDERATION CHAIRMAN INAYAMA THAT A MORE FORMAL, EC-LIKE VRP COULD BE EXTENDED TO THE U.S. IF NECESSARY. MITI HAS STATED THAT SUCH AN AGREEMENT--PARTICULARLY IF CLAIMED TO HAVE OFFICIAL GOJ INVOLVEMENT--IS NOT ONLY UNNECESSARY BUT POSSIBLY DAMAGING IN THAT IT COULD IMPLY A MOVE TOWARD A "SECTORAL APPROACH" IN DEALING WITH STEEL ISSUES, SOMETHING THAT MITI HAS LONG STRIVEN TO AVOID. MITI HAS PREDICTABLY SUPPORTED THE JAPANESE STEEL INDUSTRY'S CLAIM THAT RESTRAINTS ON EXPORTS TO THE EC DO NOT HAVE AN IMPACT ON THE LEVEL OF EXPORTS TO THE U.S.

4. THE JAPANESE STEEL INDUSTRY'S POSITION ON EXPORT PROBLEMS PRIMARILY REFLECTS THE POSTURE OF THE LARGEST SIX STEEL MANUFACTURERS--COMMONLY KNOWN AS THE "BIG SIX". THE BIG SIX HAVE INDICATED

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THEIR WILLINGNESS TO CONTINUE THE PRESENT VRP TOWARD THE EC INTO 1977. THOUGH SOME SPOKESMEN HAVE DIFFERED WITH CHAIRMAN INAYAMA OVER THE DESIRABILITY OF A VRP TOWARD THE U.S., THERE WOULD APPARENTLY BE GENERAL WILLINGNESS TO GO ALONG WITH SUCH A MOVE. MITI SEEMS TO BELIEVE THAT AT LEAST IT WOULD BE PREFERABLE TO A GOVERNMENT-TO-GOVERNMENT AGREEMENT. HOWEVER, SOME JAPANESE INDUSTRY OFFICIALS WOULD FAVOR A GOVERNMENT-TO-GOVERNMENT STEEL AGREEMENT, SINCE IT WOULD NOT RISK CONFLICT WITH U.S. ANTI-TRUST LAWS.

5. AS DESCRIBED IN REFTEL A, THE STEEL INDUSTRY MAINTAINS THAT ITS EXPORTS TO THE U.S. ARE BASED ON PROJECTIONS OF DEMAND THROUGH LONG-TERM CONTRACTS WITH STEADY U.S. CUSTOMERS. IN THIS

WAY, THE BIG SIX WILL LIMIT THEIR EXPORTS TO WHAT THEY COMMONLY AGREE TO BE A FIGURE THAT THE U.S. CAN ABSORB WITHOUT UNDESIRABLE ECONOMIC/ /OR POLITICAL CONSEQUENCES. GIVEN THIS, THE JAPANESE STEEL INDUSTRY FLATLY DENIES THE AISI'S ARTICLE 301 COMPLAINT OF A CONNECTION BETWEEN EXPORTS TO THE U.S. AND THE VRP WITH THE EC.

6. INDUSTRY REPS WHOM WE HAVE CONTACTED HAVE EXPRESSED THE FEELING OF BEING CAUGHT IN A CROSS-FIRE ON EXPORTS TO THE U.S. ON THE ONE HAND, FAILURE TO ACHIEVE A CLEARER UNDERSTANDING RE U.S.-BOUND EXPORTS WILL MEAN CONTINUED PROBLEMS WITH U.S. INDUSTRY. YET, MOVES TOWARD SOMETHING LIKE A VRP COULD EASILY RUN AFOUL OF ANTI-TRUST LAWS AND CONSUMER INTERESTS.

7. A MAJOR PROBLEM IN JAPANESE STEEL EXPORTS CENTERS NOT ON THE BIG SIX, BUT ON THE ACTIVITIES OF APPROXIMATELY 70 SMALL TO MEDIUM SIZED MANUFACTURERS. STEEL SHAPES--THE SHARP INCREASE IN JAPANESE EXPORTS OF WHICH HAVE BEEN A PRIMARY IRRITANT IN JAPAN-EC STEEL RELATIONS--HAVE COME ALMOST ENTIRELY FROM THESE SMALLER PRODUCERS. ACCORDING TO THE JAPAN IRON AND STEEL FEDERATION, THERE IS HARDLY ANY CAPITAL RELATIONSHIP BETWEEN THE SMALLER PRODUCERS AND THE BIG SIX, AND THUS THE LATTER HAS LITTLE ABILITY TO INFLUENCE THE EXPORTS OF THE SMALLER MAKERS.

8. IT HAS BEEN WIDELY SPECULATED THAT MITI MIGHT RESORT TO CONTROLLING THE ACTIVITY OF THE SMALLER PRODUCERS THROUGH ADMINISTRATIVE GUIDANCE. HOWEVER, MITI HAS SHOWN MARKED RELUCTANCE TO CONFIDENTIAL

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EMPLOY THIS TACTIC BECAUSE THREATS TO WITHHOLD LOANS, THE USUAL MEANS FOR APPLYING SUCH GOVERNMENT LEVERAGE, COULD BE RUINOUS FOR MANY OF THE FINANCIALLY STRAINED FIRMS. CONTRARIWISE, IN THE CASE OF THE LARGEST SHAPE-MAKER, INDEPENDENCE FROM BANKS AND TRADING COMPANIES MAKES THE COMPANY RELATIVELY IMMUNE TO THE INSTRUMENTS OF "GUIDANCE" (SEE REFTEL D). MITI MAY EXPECT THAT A REDUCTION IN EC DEMAND FOR JAPANESE STEEL SHAPES WILL HELP TO PROVIDE A "NATURAL" SOLUTION FOR THIS PROBLEM.

9. AS A MAJOR ELEMENT IN THE RECENT BARRAGE OF EC COMPLAINTS CONCERNING JAPANESE EXPORTS, STEEL PROBLEMS HAVE BEEN GIVEN WIDE COVERAGE IN THE JAPANESE PRESS. VARIOUS FIGURES HAVE BEEN QUOTED, AND WE SHARE U.S. MISSION EC'S UNCERTAINTY OVER EXACTLY WHICH ONES ARE ACCURATE. OUR BEST UNDERSTANDING FROM MITI AND INDUSTRY SOURCES ON PROJECTED EXPORTS TO THE EC IN 1977 INDICATES AN OVERALL REDUCTION FROM ABOUT 1.57 M. TONS IN 1976 TO ROUGHLY 1.4 M TONS IN 1977. THE BIG SIX FIGURE, WHICH IN 1976 WILL AMOUNT TO SLIGHTLY LESS THAN THE 1.22 M TONS ALLOWED FOR IN THE VRP, WILL APPARENTLY BE ABOUT THE SAME IN 1977. THIS INDICATES A SUBSTANTIAL REDUCTION IN THE EXPORT FIGURE FOR SMALLER PRODUCERS. MITI SPECIFICALLY SPOKE OF A DECREASE IN EXPORTS OF STEEL SHAPES.

10. AS WE NOTED IN REFTEL D, MITI DENIED MAKING ANY FORMAL COMMITMENT TO RESTRAIN STEEL EXPORTS DURING RECENT TALKS IN BRUSSELS, THOUGH IT ACKNOWLEDGES A WILLINGNESS TO SUPPORT THE BIG SIX IN CONTINUING THEIR VRP. MITI AND INDUSTRY SPOKESMEN SEEM TO THINK THAT EXCEPT FOR THE PROBLEM OF STEEL SHAPES, THERE SHOULD BE NO DIFFICULTIES WITH EXPORTS TO THE EC. ACCORDING TO MITI, EC SPOKESMEN RECOGNIZED THE FACT THAT THE UPSURGE IN SOME CATEGORIES OF STEEL EXPORTS (PARTICULARLY SHAPES AND BARS) TO THE EC THAT TOOK PLACE DURING THE FIRST HALF OF THIS YEAR WAS ATTRIBUTABLE TO A SUDDEN RISE IN DEMAND FOR CONSTRUCTION MATERIALS IN EUROPE THAT EC PRODUCERS WERE NOT ABLE TO MEET--IN OTHER WORDS, THIS WAS AN EXCEPTIONAL SITUATION RATHER THAN A CONTINUING PATTERN. OVERALL, MITI FEELS THAT THE PRESENT DEPRESSED MARKET FOR STEEL IN EUROPE WILL IN ITSELF TEND TO CURB EXPORTS AND HOPES THAT THIS DEVELOPMENT WILL BE ENOUGH TO CONTROL THE PROBLEM.

11. THE FOLLOWING FIGURES ARE DRAWN FROM A MORE COMPLETE SET OF STATISTICS THAT WILL BE AVAILABLE TO THE DELEGATION UPON ITS ARRIVAL.

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KEY STATISTICS FOR JAPANESE STEEL INDUSTRY  
(1,000 MT)

	RAW STEEL	IMPORTS	EXPORTS	DOMESTIC CONSUMPTION	RATION OF EXPORT TO PRODUCTION
JFY#	PRODUCTION				
1975	101,596	103	36,215	65,484	35.6 PER CENT
1ST	53,670	94	21,945	31,819	40.9 PER CENT
HALF OF					
1976					
(MAR-SEPT)					

#MARCH-FEB.

JAPANESE IRON AND STEEL EXPORTS  
(1,000 MT)

	JAN-SEPT 1976	PERCENT CHANGE FROM JAN-SEPT 1975
TOTAL	27,825	PLUS 26.8
U.S.A.	5,655	PLUS 44.1
USSR	2,039	PLUS 147.8
EC	1,123	MINUS 23.8

JAPANESE IRON AND STEEL EXPORTS:  
COMPARISONS OF LARGEST CATEGORIES  
(1,000 MT)

PRODUCTS FOR JAN-SEPT 1976 (PERCENT CHANGE FROM JAN-SEPT 1975)

TOTAL: TO U.S.: TO EC:

SHAPES 2437 (PLUS 50.6) 687 (PLUS 115.9) 205 (PLUS 222.1)  
BARS AND 2578 (PLUS 92.9) 158 (PLUS 49.6) 71 (PLUS 358.0)  
RODS  
WIRE RODS 1580 (PLUS 25.1) 325 (MINUS 1.5) 31 (MINUS 23.3)  
PLATES 3284 (PLUS 5.9) 435 (PLUS 15.8) 186 (MINUS 51.6)  
WIDE 3550 (PLUS 6.8) 580 (PLUS 18.3) 193 (MINUS 53.4)  
STRIPS  
SHEETS 4390 (PLUS 76.5) 825 (PLUS 106.0) 104 (MINUS 34.5)  
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GALVAN- 1607 (PLUS 99.8) 764 (PLUS 221.1) 38 (MINUS 49.0)  
IZED  
IRON  
SHEETS  
SEAMLESS 1033 (PLUS 1.8) 161 (PLUS 51.7) 3 (MINUS 81.3)  
TUBES  
AND  
PIPES  
WELDED 2381 (PLUS 17.1) 607 (PLUS 33.4) 36 (MINUS 77.4)  
TUBES  
AND  
PIPES  
HODGSON

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## Message Attributes

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